

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

SB 1951 - HB 1542

March 26, 2009

SUMMARY OF BILL: Authorizes any county, by resolution of its governing body, or any incorporated municipality, by ordinance of its governing body, to create an exemption from local option sales tax for all replacement trees as defined by the bill. Defines replacement tree and required tree density.

ESTIMATED FISCAL IMPACT:

Increase State Expenditures - \$50,000/One-Time

Decrease Local Revenue - \$9,400/Recurring/Permissive

Assumptions:

- “Replacement tree” means a tree with at least a six-inch diameter at breast height (DBH) that is purchased for purposes of being counted toward the required tree density of a commercial or public utility property.
- “Required tree density” means fourteen units per acre based on a specified schedule of units representing basal area and caliper size measured six inches from the top of a tree’s root ball.
- According to the Department of Revenue (DOR), most of the trees this bill addresses are likely to be exempt from sales and use tax under current law. Agricultural and horticultural products sold by the producer to installers (i.e. landscapers) are exempt from both state and local sales tax. Only when the producer sells to a retailer who then sells to consumers would trees become taxable items.
- It is reasonable to assume that some rural counties and/or municipalities would purchase some trees from respective local retailers and thus be paying local option sales tax.
- The fiscal impact of this bill is dependent on several unknown factors such as the number of local governments that will elect to make tree purchases exempt from local option sales tax, the number of trees

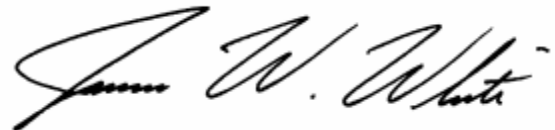
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purchased by such local governments from retailers, the price paid to the retailers for the trees; and the respective local option sales tax rate.

- Fifty local governments elect to make tree purchases exempt from local option sales tax.
- Each local government purchases on average 100 trees from retailers each year.
- The average retail price for each tree is \$75.
- The average local option sales tax rate is 2.5 percent.
- The permissive decrease to local government revenue is estimated to be \$9,400 per year ($50 \times 100 \times \$75 \times 2.5\% = \$9,375$).
- According to DOR, the Department would incur one-time state expenditures for making required computer and software modifications. Such one-time increase to state expenditures is estimated to be \$50,000.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, appearing to read "James W. White". The signature is fluid and cursive, with the first name "James" written in a larger, more prominent script than the last name "White".

James W. White, Executive Director

/rnc